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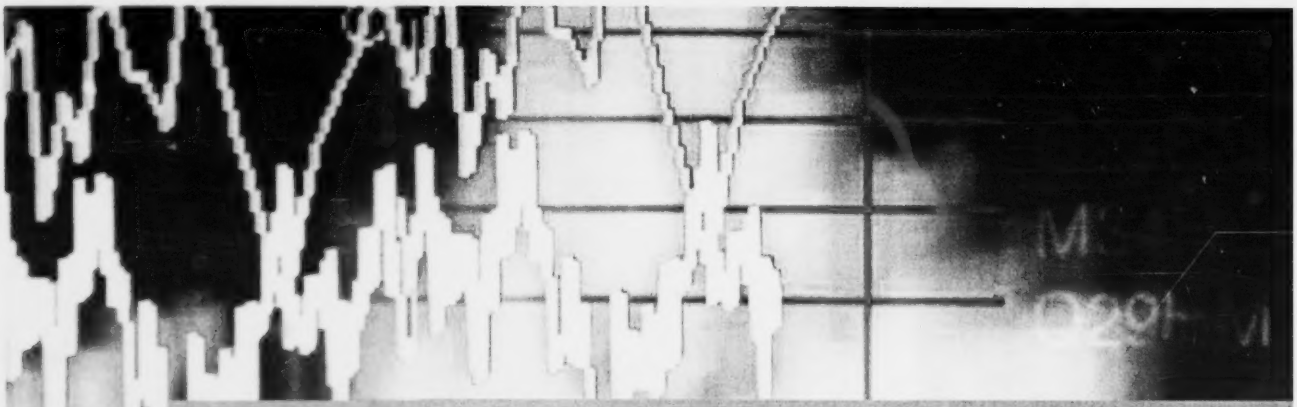

ONTARIO'S INDEPENDENT ELECTRICITY SYSTEM OPERATOR

2005 YEAR IN REVIEW

ieso

Power to Ontario. On Demand.

They are the generators who produce electricity. They are the consumers who contribute reserve power and demand response. They are the local distribution companies who serve homeowners and businesses throughout the province. They are the traders who secure imports that support the province's electricity reliability. And they are the transmitters who deliver the power along high-voltage transmission lines. Together, they represent all players in Ontario's wholesale market – serving the electricity needs of all Ontarians.

Almost 300 different organizations come together through the IESO wholesale market – to bid and offer for the sale and purchase of electricity in Ontario. They are the generators who produce electricity. They are the consumers who contribute reserve power and demand response. They are the local distribution companies who serve homeowners and businesses throughout the province. They are the traders who secure imports that support the province's electricity reliability. And they are the transmitters who deliver the power along high-voltage transmission lines. Together, they represent all players in Ontario's wholesale market – serving the electricity needs of all Ontarians.

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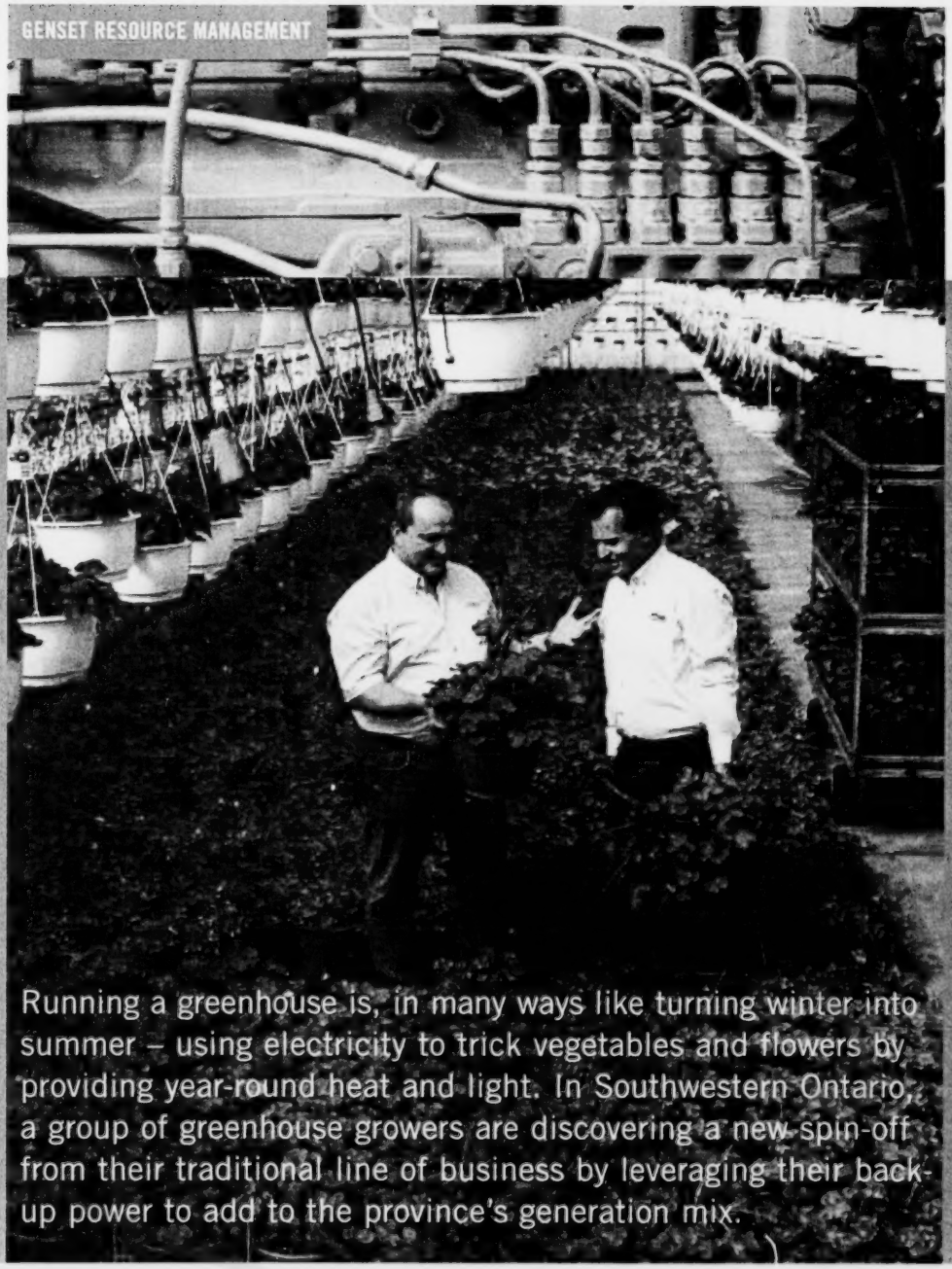
Supply shortfalls affect some parts of the province more than others. York Region is a case in point, lacking local generation or adequate transmission capacity to meet its growing electricity needs. Local utilities such as Newmarket Hydro are embarking on creative solutions to address local reliability concerns until longer-term solutions are in place.

Newmarket Hydro has been working with its commercial and industrial customers to promote load-shifting and conservation. One program, to be launched in 2006, is a text-messaging system that will send power alerts to plant managers so they can react quickly to calls for curtailment. The utility is also looking to offer financial incentives for reducing electricity use during peaks. "We're here to make sure that our customers have as many tools as possible to help them better manage their electricity use," says Paul Ferguson, President of Newmarket Hydro pictured centre with customers Hans Psotta and Zenon Petriw of Rimply Manufacturing, a subsidiary of Magna International.

Newmarket, ON

GENSET RESOURCE MANAGEMENT



Running a greenhouse is, in many ways like turning winter into summer – using electricity to trick vegetables and flowers by providing year-round heat and light. In Southwestern Ontario, a group of greenhouse growers are discovering a new spin-off from their traditional line of business by leveraging their back-up power to add to the province's generation mix.

Seeing the untapped potential of on-site generators, Genset Resource Management partnered with local greenhouses, aggregating generation and offering supply into both the real-time and operating reserve markets. Essex Energy, with its utility experience, was brought into the partnership to manage settlements. As a result, on-site generators become a revenue stream, not an operating expense. "There's no reason why we can't take this concept across the country, aggregating back-up generation to municipalities, businesses and other locations," says Cole Cacciavillani, Genset President and CEO, pictured left with Ray Tracey, President and CEO of Essex Power Corp.

Leamington, ON

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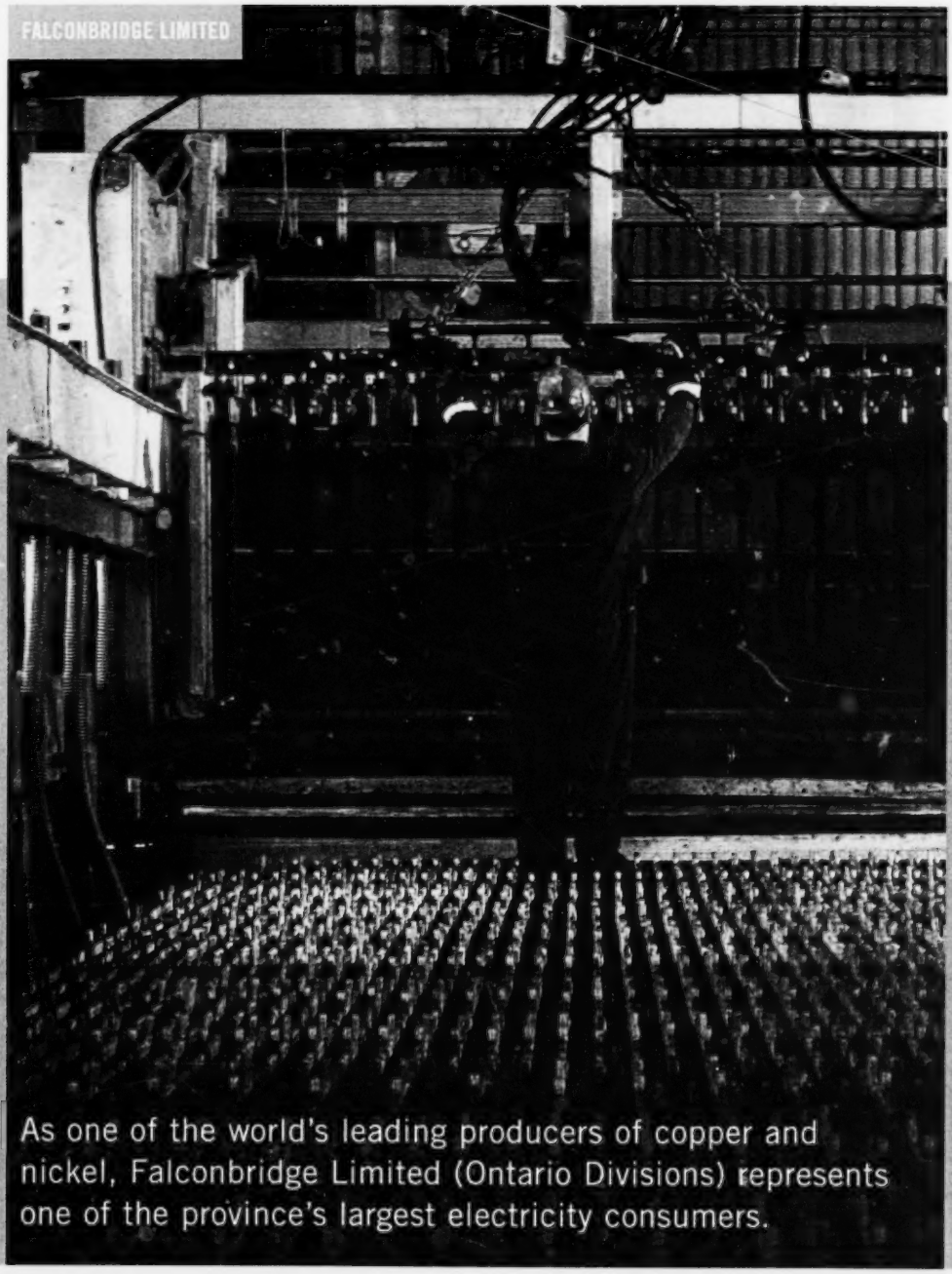


As one of the world's leading producers of copper and nickel, Falconbridge Limited (Ontario Divisions) represents one of the province's largest electricity consumers.

Because of its ability to adjust consumption on short notice, the company is able to offer 25 per cent of that load into the market. One of the first "dispatchable loads" in the province, Falconbridge's contribution to demand response will continue to grow as it further develops the ability to control its electricity consumption patterns.

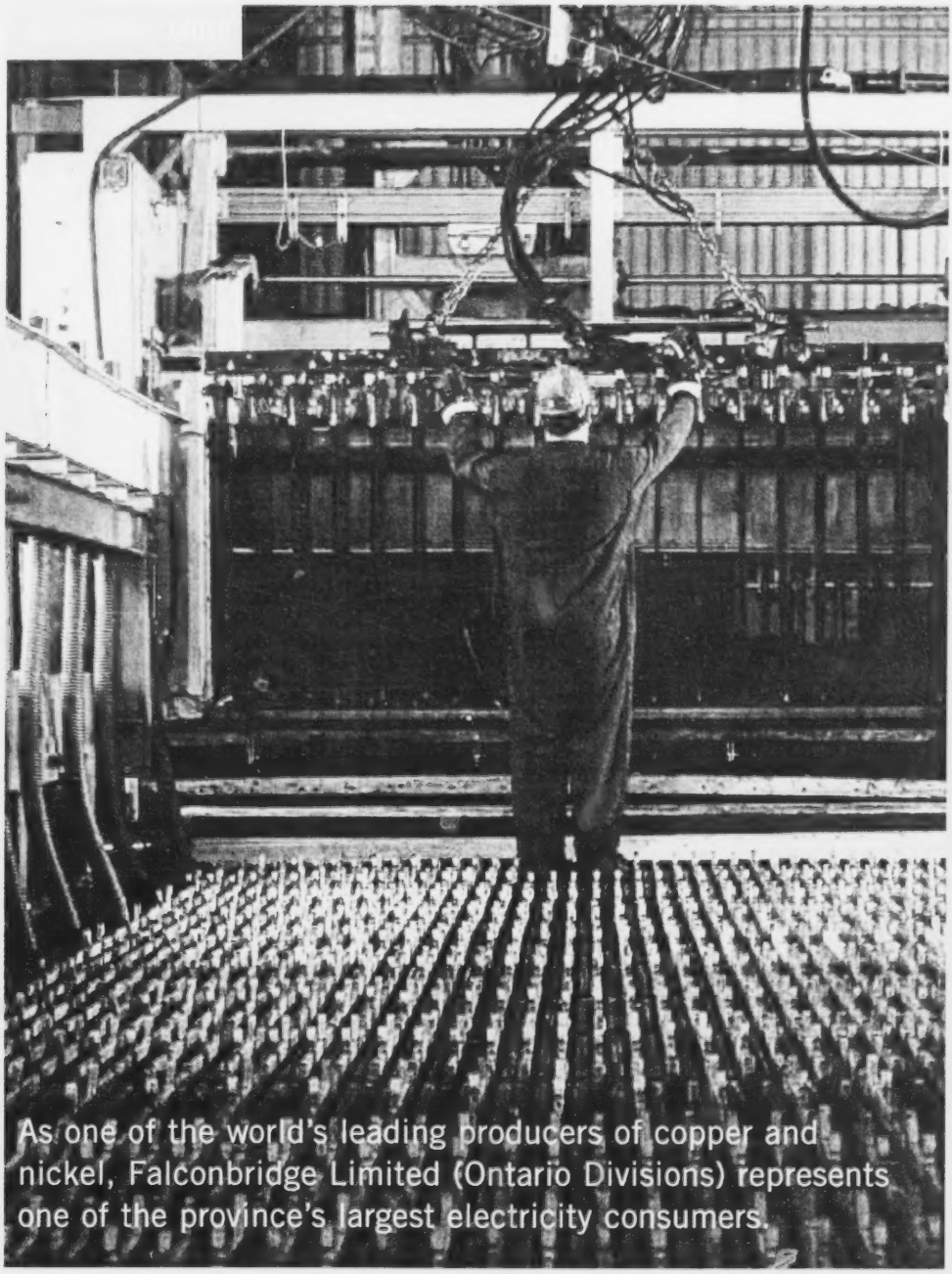
Sudbury, ON

HYDRO OTTAWA

Serving more than 278,000 customers, Hydro Ottawa is making enormous strides implementing conservation and demand management programs. In 2005 alone, Hydro Ottawa invested $2.1 million in conservation initiatives and saved enough electricity to power more than 750 Ottawa homes.

Hydro Ottawa, through Energy Ottawa, recently announced the Trail Road project, scheduled to come on line later in 2006. An investment of $12 million, the facility will capture landfill gas, converting it into enough green electricity to power as many as 5,000 Ottawa homes, reducing greenhouse gas emissions by up to 1.3 million tonnes. "Our company is doing its part to help build an energy future in the province that will ensure the lights stay on," says Rosemarie Leclair, President and CEO of Hydro Ottawa Holding Inc., pictured here at the site of the future Trail Road Waste Facility in west Ottawa.

Ottawa, ON



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Ottawa, ON

MESSAGE FROM THE CHAIR

"Stakeholder input is an integral part of the IESO's decision-making process."

In 2005, the IESO continued to successfully deliver on its primary system and market operation responsibilities.

The public's attention was mostly on the system side, particularly during the summer months when high temperatures and near drought conditions in much of the province created record demands for electricity and limited hydroelectric generation. This resulted in significant strains on the power system, and the IESO relied on extensive use of emergency control actions in order to maintain reliability and avoid power interruptions.

Yet away from the spotlight, the IESO also stayed focused on its market responsibilities, taking bids and offers to meet expected demand, settling more than $13 billion of electricity transactions and helping participants utilize market mechanisms available to them. The IESO also continued to work with stakeholders to lay the groundwork for the continued development of Ontario's wholesale market to fully achieve the benefits of competition.

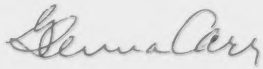
Stakeholder input is an integral part of the IESO's decision-making process and the Stakeholder Advisory Committee established in 2005 provides that input directly to the Board and IESO Executive. The 13-member committee meets regularly to consider and make recommendations on a number of matters relevant to the IESO and the broader sector, including the continued development of the market.

The *Electricity Restructuring Act, 2004* reaffirmed the importance of the market in Ontario's electricity sector, creating the hybrid market model that is currently in place.

The Act also created an independent Board of Directors for the IESO, independent of market participants. The Board is comprised of an outstanding group of individuals who have the utmost integrity and possess an independent mindset. We operate in the public interest according to the objects of the IESO under the Electricity Act.

I am indebted to the Directors for their expertise, commitment and support in continuing to move this sector toward a reliable, efficient and effective electricity market: a market in which the province's electricity system meets the highest standards of reliability in North America, competition encourages innovation and choice in products and services, price fidelity provides users with clear costs and investments in supply and demand are attracted.

In closing, I would like to thank the entire staff of the IESO, under the direction of Dave Goulding and his management team, for managing the reliability of the power system under stressful conditions while working toward our longer-term goals for Ontario's electricity sector.



Glenna Carr
Chair

MESSAGE FROM THE PRESIDENT AND CEO

"How we shape the market today will have a lasting impact on our ability to meet the province's needs for substantial and reliable electricity service."

Responsiveness is a key ingredient for the success of any organization, and the IESO's ability to respond effectively was severely tested on a number of fronts in 2005. I am pleased to report that we more than passed the test on all of those occasions.

The summer of 2005 presented us with unprecedented challenges in maintaining reliability through record demands and lower than expected hydroelectric generation. Working with market participants and others, and relying more than I would have liked on emergency control actions, the IESO was able to maintain reliability. However, while supply was never interrupted, Ontario businesses, industries and residents are not well served by a power system that requires frequent power warnings, voltage reductions or routine reliance on emergency control actions to maintain reliability – all of which happened last summer.

We have responded by developing new market measures aimed at avoiding a repeat of last summer. A Day-Ahead Commitment Process is being implemented to reduce the failure of import transactions in real time and increase commitment certainty for both domestic and out-of-province generators. An Emergency Load Reduction Program will reduce consumption when required for reliability by providing incentives to loads to reduce their energy usage under stressed system conditions.

Responding to the provincial government's new legislation creating a hybrid market structure is a top priority for the IESO. The new market structure leaves us well positioned to continue to work with stakeholders to evolve to a market-driven competitive sector that benefits all participants.

We have also been very much involved in the development of new reliability legislation in the U.S., legislation that will create the Electric Reliability Organization. As the province's Reliability Coordinator, we have represented Ontario's interests and will continue to demonstrate that Ontario has robust plans in place to deal with contingencies and uncertainties.

Like many other companies, we are facing the challenges of an aging work force. We are responding by recruiting some of the best young talent in this sector to ensure we can continue to deliver on our critical system and market responsibilities. This balance of expertise and new ideas will serve the IESO well in the years ahead.

Looking forward, we recognize that how we shape the market today will have a lasting impact on our ability to meet our province's needs for sustainable and reliable electricity service.

Finally, on behalf of the IESO, I would like to thank market participants and stakeholders for their efforts in meeting the challenges of 2005.

Dave Goulding
President and CEO

A YEAR OF TRANSITION

Looking back, 2005 will be remembered for a summer of prolonged heat, high humidity and near drought conditions.

On too many occasions, the IESO was forced to take emergency control actions, including short-term voltage reductions and appeals for customers to reduce their power use. Beyond the difficulties of day-to-day system management was the knowledge that still greater challenges lie ahead.

Over the next 20 to 25 years, it is estimated that the province requires from 20,000 to 25,000 megawatts (MW) of new supply and accompanying transmission development to meet expected demand. Given the complexity of integrating these changes, fulfilling the organization's core mandate – to ensure the security and reliability of Ontario's power system – will be a significant challenge.

Coping with day-to-day operational stresses was only part of the story in 2005. The IESO experienced a period of unprecedented change last year which contributed to a stronger, more effective organization that's capable of meeting future challenges. New legislation, the *Electricity Restructuring Act, 2004,* altered the electricity landscape, and the IESO responded by realigning its internal operations to better serve its stakeholders and the broader public.

Key legislative changes included the requirement that the IESO's 17-member Board of Directors, which had been dominated by stakeholder members, be replaced by a Board comprised solely of independent directors. Yet it was important that the IESO continue to seek and incorporate input from market participants on everything from technical developments and rule changes to broader perspectives on the future of power generation.

To that end, a broad redesign of the IESO's stakeholdering process began to take shape in early 2005. By June, the Board of Directors approved a new Stakeholder Engagement Process based on a centralized internal Stakeholder Engagement Unit that would manage, coordinate and support the process. Sixteen principles were developed, outlining the expectations and accountabilities of both sides when working together to resolve problems.

A Stakeholder Advisory Committee (SAC) was also established to provide a sounding board for the Board of Directors and IESO management in making decisions. The SAC, made up of 12 senior representatives from generators, distributors, transmitters, traders and consumers, reflects the new customized approach to stakeholder relations. It is supported by smaller working groups of stakeholders and IESO staff who can seek solutions to specific technical issues such as changes to the market rules.

The legislation also led to the creation of the Ontario Power Authority (OPA). While the IESO retains its core responsibilities around system and market operations, including short-term forecasting for both generation and transmission requirements, the OPA was tasked with the new responsibility for long-term power system planning and conservation promotion. The IESO has been working closely with the OPA to ensure the efficient coordination of roles and responsibilities.

The reporting responsibility for the Market Surveillance Panel was shifted in 2005 to the Ontario Energy Board (OEB). By formal agreement between the IESO and the OEB, the Panel continues to be supported by the IESO Market Assessment and Compliance Division, which monitors and analyzes market activity.

In response to the legislative changes to the industry as a whole, IESO management identified a need to realign the operational structure of the organization and take advantage of opportunities to deliver greater value for market participants.

● Windsor, ON

CASINO WINDSOR

The energy managers at Casino Windsor, a market participant, have a unique challenge – keep the dazzle and excitement that's the lifeblood of an entertainment attraction yet also bring energy costs down. As a 24/7 operation with no windows to let in daylight, Casino Windsor is still able to shift some of its electricity use to off-peak hours through the use of a District Energy Plant that chills water overnight for use during the day. It also replaced its landmark marquee with LED lights – generating $10,000 a year in savings. "We've found no noticeable difference in lighting since changing to LED," says Fraser Marshall, Manager, Electrical Services.

A new IESO business unit, Reliability Assurance, was created to focus on the effective coordination and integration of the significant changes to the power system that are set to occur over the next few years. Similarly, a new Corporate Relations and Market Development Group was established to house the Stakeholder Engagement Unit and to focus on regulatory issues and the evolution of the electricity market. Legal Services, Internal Audit and Corporate Planning and Finance units were also combined into a new Corporate Services division that will allow more effective handling of governance matters.

All these changes – in the makeup of the Board, in internal organization, in collaboration with the OPA and in ongoing relations with stakeholders – were managed in a fiscally responsible and prudent fashion. The IESO runs its finances using an Enterprise Risk Management (ERM) framework, a controlled and disciplined process that requires the organization to identify its various risks. Once these risks are identified and assessed, the IESO is better able to decide how to allocate its resources, from investments in technology that will improve market functions to hiring and training programs. ERM also provides relevant information and assessments to management as programs are adjusted to meet changing conditions and workloads.

Working within this closely-controlled framework, total expenses, including interest expense and financing charges, were two per cent lower than in 2004 and amortization costs associated with the capital program were reduced by almost nine per cent. The organization repaid $75 million of its debt to the province – 37 per cent of the outstanding amount allowing for reduced interest costs.

At the same time, due primarily to the increased demand for electricity, total revenues increased by almost four per cent. As a result, the IESO issued a rebate on its 2005 fees and reduced its fees for 2006 and likely beyond. Prudent financial management in the dynamic and often unpredictable environment of the wholesale electricity market is difficult, but the record achieved in 2005, as well as in previous years, is one that the IESO will work diligently to extend through 2006 and beyond.

Two thousand and five also brought adjustments to the structure of the regulated component of the hybrid market. Caps to payments to Ontario Power Generation (OPG) assets were implemented. In addition, the OPA established contracts with projects under its RFP program as well as with a number of existing generators. The stabilizing influence of the contract and regulated rates resulted in overall lower prices, while preserving the market fluctuations that act as price signals to producers and consumers to produce or use energy more effectively and efficiently.

The IESO's role in assuring the reliability of Ontario's electricity supply was never more pivotal than during the summer of 2005.

Ontarians witnessed the equivalent of a perfect storm for their electricity system. Hot summer temperatures triggered record demands for electricity. At the same time, near drought conditions limited the amount of hydroelectric generation available, with production 15 per cent less than forecast energy capability. Other generation and transmission constraints further exacerbated the situation.

The power system was operated under emergency conditions on many days throughout the summer. Five per cent voltage reductions were implemented for much of the province on two consecutive days in August and on two other days during the summer in the Greater Toronto Area. On 12 separate days, the IESO appealed to customers to reduce their electricity consumption to ease strain on the system.

Imports were both a blessing and a burden. Given the domestic constraints, Ontario was forced to rely repeatedly on imports from its neighbours to help meet the demand for electricity. Customer demand and the operating reserve that the IESO is required to maintain actually exceeded Ontario's available generation capacity for 283 hours last summer – compared to only 18 hours for the same period in 2004.

At the same time, Ontario was regularly plagued by the failure of import transactions, leaving IESO operators scrambling to find replacement power. Between June 1 and August 31, Ontario experienced import transaction failures on all but two days. One of the most significant failures occurred on August 3, when a loss of more than 1,000 MW of scheduled imports forced the IESO to implement a five per cent voltage reduction for much of the province.

The IESO is determined to avoid a repeat of last summer and is developing new market measures to address some of the problems that surfaced then. These include a Day-Ahead Commitment Process (DACP), which is expected to reduce the failure of energy imports in real time, increase commitment certainty for domestic generators with long start-up times as well as assist in more accurately determining next-day energy or capacity shortfalls. Financial settlement charges for all intertie transaction failures deemed to be within the control of market participants are also expected to have a positive impact on supply.

The role of demand response in dealing with emergency operating situations is also being expanded. An Emergency Load Reduction Program (ELRP) is being developed to incent customers to respond during emergency conditions and help avoid or reduce the use of voltage reductions, emergency purchases and other emergency control actions, all of which were implemented during the summer of 2005. Participating customers will receive compensation when asked to be on call. More significant payments will be triggered if customers are asked to reduce consumption during emergency conditions.

RELIABILITY AND CHALLENGES TO THE SYSTEM

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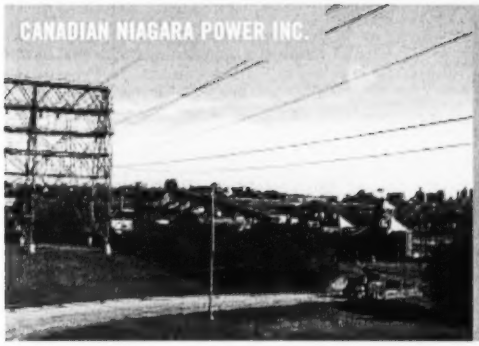
Niagara Falls, ON



CANADIAN NIAGARA POWER INC.

One of four transmitters serving Ontario, Canadian Niagara Power Inc. owns and operates 42 km of high-voltage transmission lines that extend from Niagara Falls through to Fort Erie including an intertie to Hydro One Networks and New York State. The company also serves as the distribution company for the communities of Port Colborne, Fort Erie and Gananoque.

Late in 2005 the IESO, in its 18-Month Outlook, articulated the urgent need for new generating and transmission facilities in Toronto. Toronto is one of the largest cities in North America without generation inside its borders, meaning that it is entirely reliant on outside supply delivered through two main transmission paths. The transmission facilities carrying that power were at or near capacity during peak periods in the summer of 2005 and overloading concerns need to be addressed as early as the summer of 2008 to avoid potential power cuts.

The provincial government responded to the 18-Month Outlook with an announcement of a new 550 MW generating plant to serve the Central Toronto area. Longer term, a third transmission path will be required to maintain reliability under hot summer weather conditions and provide diversity of supply paths into the city.

Toronto is not the only area in the province where supply challenges exist or are emerging. The IESO's 10-Year Outlook released in 2005 outlined the urgency of proceeding with new generating and transmission facilities over the next decade as a result of aging infrastructure, the coal replacement program and the continued increase in demand for electricity.

In April 2005, the Lakeview Generating Station was taken out of service, the first step in the provincial government's plan to replace more than 7,000 MW of coal-fired generation with cleaner sources of power. New generation was brought on line later in the year including the 515 MW Unit 1 at the Pickering Nuclear Generating Station. Commissioning of the 117 MW Greater Toronto Airports Authority's gas-fired cogeneration unit also began late in 2005, with the unit declared in service in early 2006.

Other projects announced in 2005 include an 860 MW gas-fired plant in Brampton, the restart of two units at the Bruce Nuclear Generating Station, construction of a third tunnel at the Beck 2 Generating Station and the proposed development of further hydroelectric capacity in northern Ontario.

Timely progress to implement the new generation and transmission facilities must occur if Ontario is to ensure a reliable supply of electricity over the next decade and beyond.

Since its launch in 2002, the market has opened the door to more effective demand response and conservation measures – which are key to helping the province meet its goal of reducing peak electricity consumption by five per cent by 2007. Last year, the amount of dispatchable load – or large volume consumers who offer demand response into the market – increased by 120 MW. In this way, the market attaches a value to load shifting which, during energy shortfalls, delivers benefits for all.

Working with stakeholders, the IESO moved forward on a number of fronts throughout 2005 to improve the market for the benefit of participants and strengthen overall reliability.

Increasing Dispatchable Load

The cap on the amount of dispatchable load in the operating reserve market increased by 350 MW to 850 MW, encouraging more users to actively manage their electricity use based on price signals. Over the year, four new dispatchable facilities representing 120 MW of potential load reduction joined the market, strengthening demand response in the province. This cap is expected to be lifted completely by the end of 2006, once additional software changes to market tools are implemented.

Ontario's Changing Grid

The transformation of Ontario's electrical infrastructure accelerated in 2005 with the introduction of roughly 600 MW of new generation capacity and new transmission facilities constructed by Great Lakes Power and Hydro One. New projects included a new 2.5 MW landfill gas unit, a 100 MW wind farm and a 515 MW refurbished nuclear unit. The IESO worked closely with each as they came into the market, addressing their individual characteristics and needs.

The Approval of its Peers

In a yearly review of operations systems and processes, the IESO again received very positive feedback from its peers: "Insofar as addressing potential threats to reliability, the Peer Group found that the IESO did an exemplary job reacting to challenges as they migrated into real-time operations." This group of system operations experts from other jurisdictions also cited both the IESO's excellent near-term operational processes and its well-trained operators as key to ensuring reliability in 2005.

Provincial Benefit and Rebates

Legislative changes introduced a new series of rebates and adjustments to electricity bills. The IESO revised its settlements processes on a tight schedule, incorporating the Provincial Benefit and the Ontario Price Credit as well as supporting local distribution companies (LDCs) in their efforts to distribute the rebate and educate their customers.

Good Fiscal Management

The IESO continues to operate the system and market efficiently, providing market participants with value for money. As a result of ongoing fiscal prudence throughout 2005, the IESO's annual OEB filing set out a five per cent reduction in its administration fee for 2006, a transfer of $15 million to support the start-up of the OPA in 2005 and a rebate of $13.6 million to customers in 2006, equalling nine per cent of its 2005 usage fees.

Coordinating Sectors

As the role of natural gas-fired generation increases in Ontario, the annual volume of gas used to produce electricity is expected to double. While the electricity market is settled on a real-time basis, the gas industry trades on a day-ahead basis, creating potential coordination and reliability concerns. As a result, the IESO has been working with partners in the electricity and gas industries to manage this growing interrelationship. A working group was established in 2005 to analyze the impact of contingencies, establish communications protocols and provide training to control room operators to help each understand the dynamics of the businesses.

IESO 2005 ACCOMPLISHMENTS

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The IESO continues to operate the system and market efficiently, providing market participants with value for money. As a result of ongoing fiscal prudence throughout 2005, the IESO's annual OEB filing set out a five per cent reduction in its administration fee for 2006, a transfer of $15 million to support the start-up of the OPA in 2005 and a rebate of $13.6 million to customers in 2006, equalling nine per cent of its 2005 usage fees.

Coordinating Sectors

As the role of natural gas-fired generation increases in Ontario, the annual volume of gas used to produce electricity is expected to double. While the electricity market is settled on a real-time basis, the gas industry trades on a day-ahead basis, creating potential coordination and reliability concerns. As a result, the IESO has been working with partners in the electricity and gas industries to manage this growing interrelationship. A working group was established in 2005 to analyze the impact of contingencies, establish communications protocols and provide training to control room operators to help each understand the dynamics of the businesses.

Mandatory and Enforceable Reliability Standards for the Continent

Ontario has been ahead of almost all North American jurisdictions in enforcing compliance with reliability standards since the market opened in May 2002. The system works well and has become a model for other areas with the move to mandatory and enforceable reliability standards that came of age in 2005 with the enactment of the U.S. Energy Policy Act. In part, the Act calls for the creation of an Electric Reliability Organization to develop and enforce continent-wide reliability standards. As the Reliability Coordinator and Control Area Operator for Ontario, the IESO has been active in the development of the standards, offering its experience in the standards management process and representing the province's interests. Mandatory enforceable standards are key to strengthening the interconnections between North American jurisdictions and acting on the findings of investigations into the 2003 blackout.

Reliability and Intuitive Pricing

Of particular concern during the summer of 2005 was the impact of emergency actions such as voltage reductions on price. High demand/tight supply situations should result in higher market prices, sending a signal to the market to produce more and consume less. Yet prices often dropped when demand-reducing control actions were taken. The IESO now adds an equivalent amount of demand back into the price-setting mechanism to offset the effect of emergency control actions. As a result, prices during emergencies will be more reflective of the true demand and supply situation. Price-responsive load behaviour is estimated to be in the range of 300 MW and will likely grow as more customers respond to these extreme conditions, which in turn would reduce the need for additional, more severe actions.

Settling the Market

Moving more than $13 billion in transactions through the market, the IESO issued roughly 140,000 settlement statements and 3,000 invoices in 2005. A biannual audit of the IESO's settlement processes confirmed that the IESO has effective and adequate controls, the second consecutive clean settlement audit for the IESO.

Reaching Out to All Wholesale Customers

Beyond the IESO-administered markets, there are more than 50,000 businesses in Ontario, representing roughly 40 per cent of load in the province. These companies pay the wholesale price through their LDC. The IESO customer education program has significantly expanded its work with these customers, partnering with LDCs using brochures, seminars, workshops and trade shows to demonstrate how these customers can better manage their electricity costs.

2005 AVERAGE WEIGHTED PRICE
(with adjustments)

Lack of supply and increased demand throughout 2005 converged to create the highest wholesale electricity prices since market opening.

The average weighted price of $72.14/MWh (before rebates) exceeded the previous year's average by $20, reflecting sustained hot weather conditions – particularly throughout the summer – and lower than expected hydroelectric generation.

This low-supply, high-demand scenario continued into the fall, when a number of necessary generator maintenance outages coupled with the impact of Hurricanes Katrina and Rita on natural gas prices prompted higher than average electricity prices, including higher annual price-setting averages by fuel type. When natural gas set the price, it did so at an average of $95/MWh, an increase of $27 over the previous year. Similarly, hydroelectric price-setting averages were up 74 per cent.

These higher prices were, however, mitigated by price adjustments introduced last year. The Global Adjustment and the OPG Rebate reduced the price so that every $10 increase in the hourly price resulted in only a $3 increase in the final price wholesale customers paid. As a result, the average annual wholesale price, factoring in adjustments, was $58.26/MWh over the year.

Operating reserve prices were also greatly influenced by the supply situation at hydroelectric facilities. In April, reserve prices reached as high as $10/MWh, as most of these stations were taking advantage of the spring run-off and offering into the energy market. By the summer, however, the near drought made the reserve market much more competitive, as their ability to run in the energy market was significantly reduced.

THE IESO WHOLESALE MARKET – 2005

* As of November, 1,500 MW from Bruce Power was provided under contract rates.
** Registered dispatchable load.

MARKET YEAR IN REVIEW – PRICE

$58.26/MWh **2005 AVERAGE WEIGHTED PRICE** (with adjustments)

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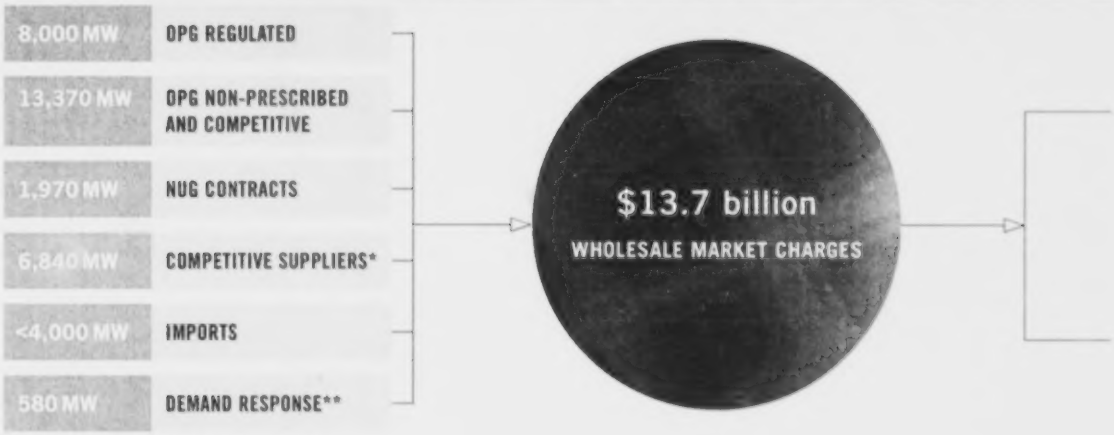
THE IESO WHOLESALE MARKET – 2005



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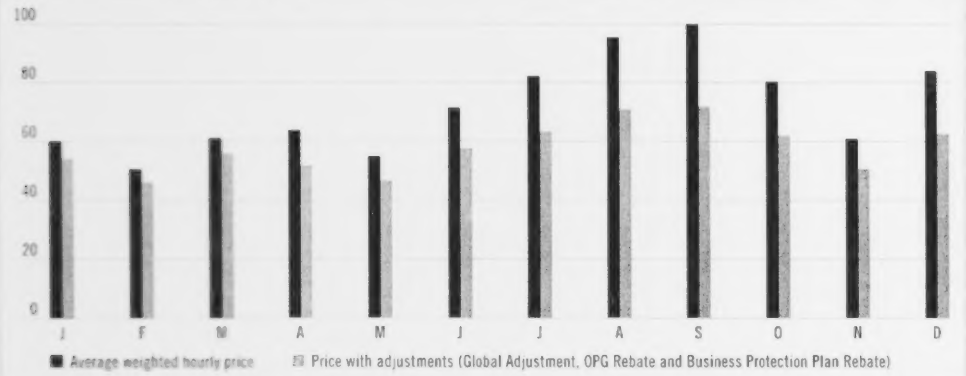
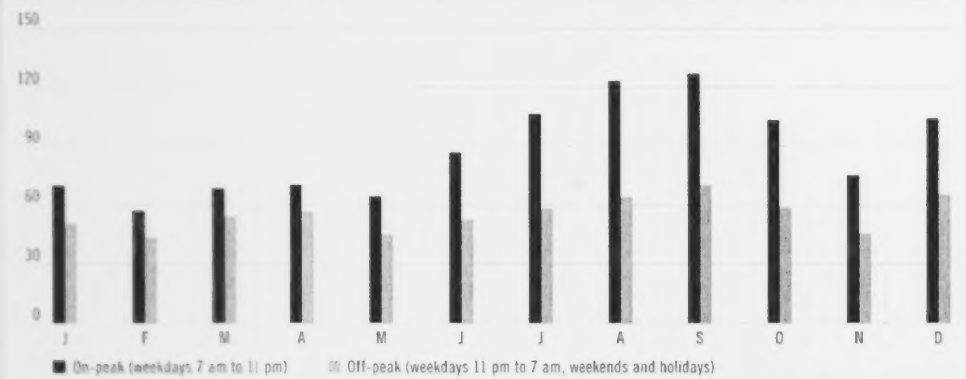
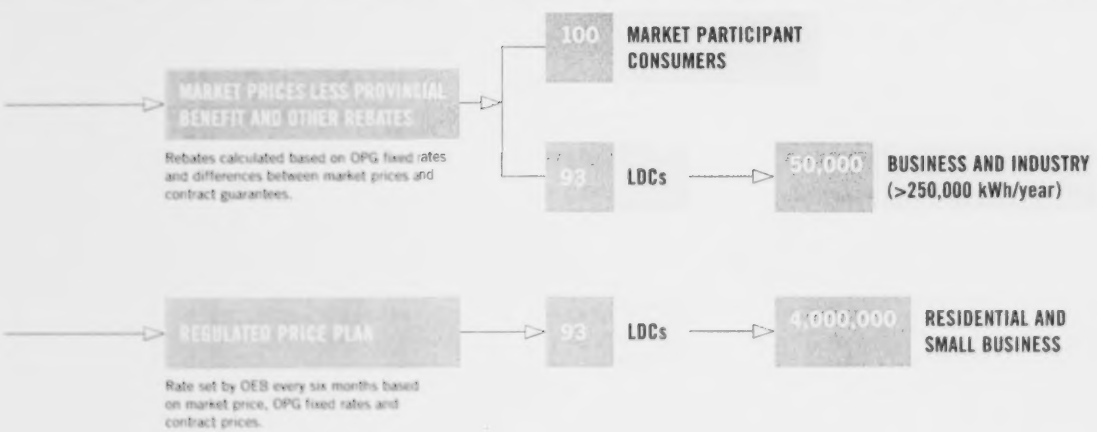
2005 AVERAGE WEIGHTED HOURLY PRICE AND ADJUSTMENTS (Canadian dollars/MWh)



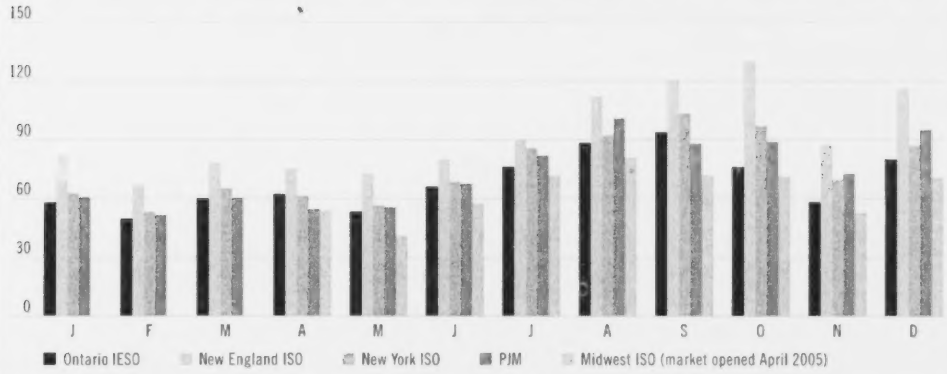
ON- AND OFF-PEAK AVERAGE WEIGHTED PRICES (Canadian dollars/MWh)



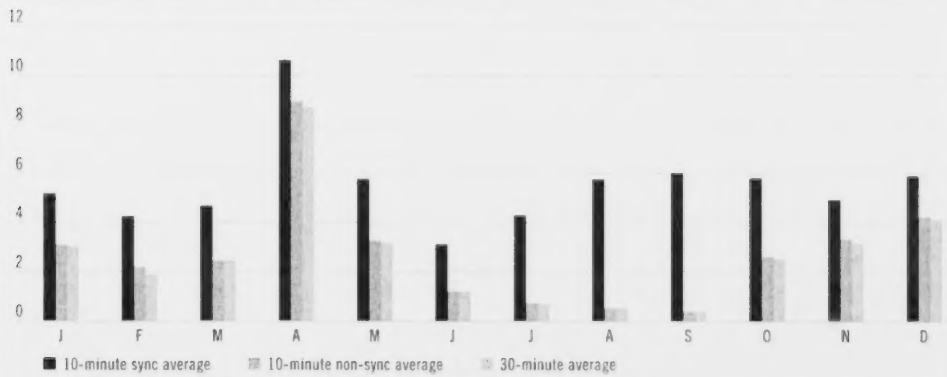

MARKET PRICES LESS PROVINCIAL BENEFIT AND OTHER REBATES
Rebates calculated based on OPG fixed rates and differences between market prices and contract guarantees.
100
MARKET PARTICIPANT CONSUMERS
93
LDCs
50,000
BUSINESS AND INDUSTRY (>250,000 kWh/year)
REGULATED PRICE PLAN
Rate set by OEB every six months based on market price, OPG fixed rates and contract prices.
93
LDCs
4,000,000
RESIDENTIAL AND SMALL BUSINESS

Market Year in Review – Price

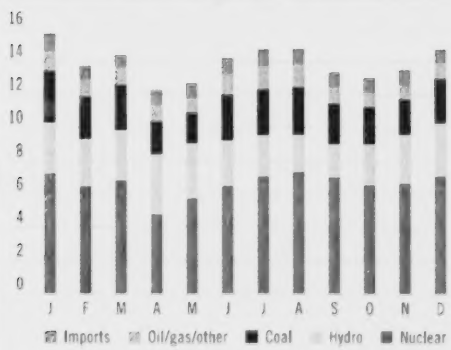
ONTARIO PRICES vs. NEIGHBOURING JURISDICTIONS (Canadian dollars/MWh)



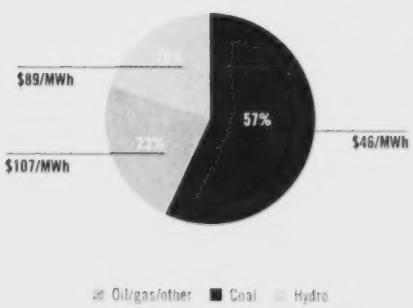
OPERATING RESERVE PRICES (Canadian dollars/MWh)



MONTHLY ENERGY BY FUEL TYPE (TWh)



SHARE OF WHOLESALE PRICES BY FUEL TYPE (%) AND PRICE SETTING AVERAGES



MARKET YEAR IN REVIEW – DEMAND AND SUPPLY

26,160 MW **JULY 13, 2005 ONTARIO DEMAND PEAK**

Despite a high Canadian dollar weakening electricity use by industry, extreme temperatures triggered a surge in Ontario electricity demand.

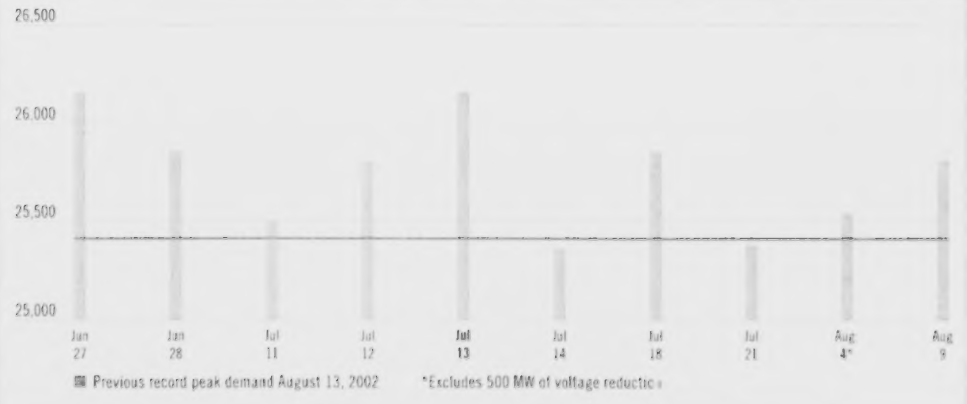
The summer of 2005 started early, and while peak temperatures didn't surpass 2002 records, the average temperature did.

This had two impacts on reliability. Without breaks in the weather, consumers were less likely to moderate their electricity use. Air conditioners were turned on and stayed on for much of the duration. The protracted heat also stressed the electricity system, placing restrictions on transmission equipment and limiting the output from some thermal generators.

During the summer, a number of new demand records were set, with a new all-time record of 26,160 MW set on July 13. Despite good overall performance, generator availability to meet these new records was of most concern in the height of the summer. Thermal limits and low water reserves reduced output. As a result, domestic supplies were insufficient to meet provincial needs for a total of 283 hours throughout the summer, compared to only 18 hours the summer before.

Looking at longer-term trends, the extreme weather demand peak is forecast to grow by 3,000 MW or an average of 1.2 per cent a year over the next 10 years.

2005 TOP 10 DEMAND DAYS IN ONTARIO (MW)



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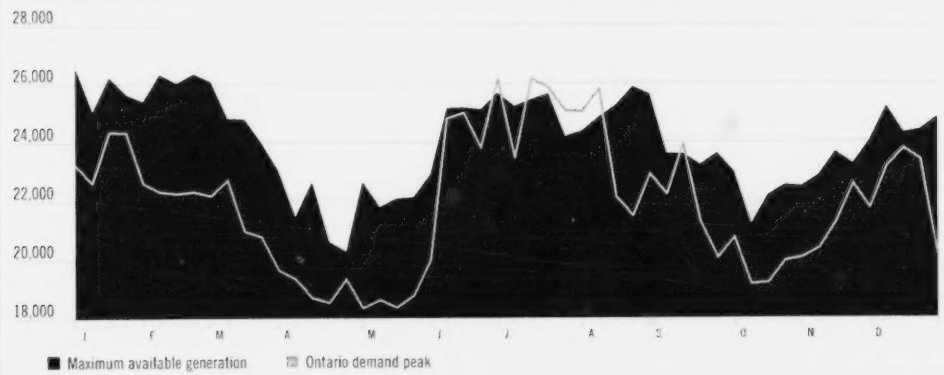
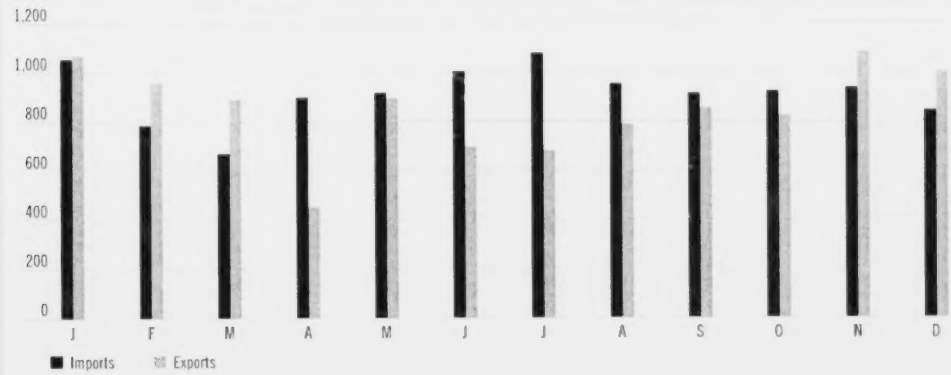
2005 TOP 10 DEMAND DAYS IN ONTARIO (MW)

Market Year in Review – Demand and Supply

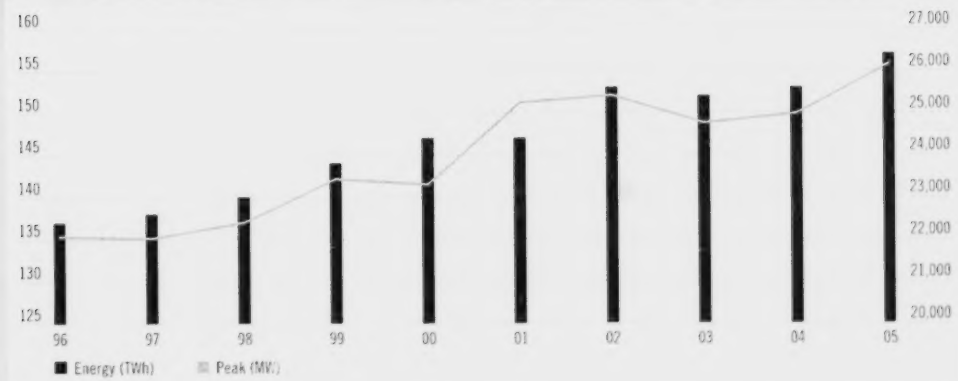
2005 WEEKLY MAXIMUM DEMAND AND AVAILABLE GENERATION (MW)



AVERAGE HOURLY IMPORTS AND EXPORTS (MW)



ANNUAL ENERGY AND PEAK DEMAND GROWTH 1996-2005



Beyond questions of capacity growth and the outlook for demand, it's important to consider the future shape of the electricity marketplace itself.

Today, Ontario has a hybrid electricity market in which slightly fewer than half of all consumers – residential, small businesses and designated consumers – pay a regulated price for electricity set by the OEB. That regulated price is reviewed every six months. Customers who use more than 250,000 kilowatt hours (kWh) a year are exposed to the market price. And while there are a number of contracts that provide either fixed or floor prices for generation, generators continue to bid into the IESO-administered market to meet demand.

The current arrangement has produced a number of benefits. But as the supply situation in the province improves, the sector can continue to evolve toward a more competitive market that can better contribute to Ontario's future success.

What would this future market look like? Working with the OPA, the IESO has been encouraging the development of a long-term vision for the electricity market, one that can be shared by all participants. Ideally, this common view would minimize the need for regulated prices and public investment support while allowing sellers and buyers to balance their respective risks concerning the production and cost of electricity.

There would undoubtedly continue to be a spot market to balance immediate fluctuations in supply and demand, just like there is today, but it would be complemented by the development of a forward market in which producers could commit to levels of production over extended periods while consumers could lock in the prices they would pay. The two sides of the market would strike contracts for varying periods with each other to manage their respective risks.

Such a forward market would establish a forward price curve, giving generators greater certainty looking ahead so that they, and their financial backers, would be willing to make investments in new capacity. This would apply to everything from small, flexible generation projects that might be set up to capitalize on peaks in pricing to larger and more costly long-term generation facilities.

Consumers would have choices in the way they manage their costs. They could continue to strike near or longer-term contracts with retailers in the same way households and businesses do now with natural gas and electricity contractors. Consumers who didn't want to operate this way would become customers of a load-serving entity that would manage their risks for them, with more stable electricity pricing that would adjust from time to time to broadly reflect trends in the market.

The IESO will work closely with the government to contribute to and act on energy policy in a way that serves the long-term interests of Ontario, evolving pragmatically toward the vision for the electricity market. Consistent with other types of large infrastructure investment, government may still be required to play a role in creating the conditions necessary to support large-scale power projects, such as major nuclear plants.

The IESO is committed to continue to work with the OPA, market participants and other stakeholders to resolve the varying and at times conflicting interests in evolving Ontario's electricity market to best serve the province. While there are short-term needs that are being addressed, we can look forward to the potential of the market for the long term. A common vision shared across the sector will help define that destination.

IESO GOVERNANCE AND STRUCTURE

Board of Directors

The IESO Board of Directors oversees the management of the organization's business and affairs. All Board members must be independent and are prohibited from having a material interest in any market participant in Ontario's electricity sector. As part of its responsibilities, the Board approves the market rules, policies and guidelines that govern the IESO-administered markets.

Glenna Carr
Chair, Independent Electricity System Operator;
CEO, Carr-Gordon Limited

Dave Goulding
President and CEO, Independent Electricity System Operator

James D. Hinds
Chairman, Irish Line Capital Inc.

John Mather
Senior Executive Vice President and Chief Administrative Officer, Manulife Financial Corporation

William J. Museler
Past President and CEO, New York Independent System Operator (NYISO)

Rudy G. Riedl
Past President, Enbridge Gas Distribution Inc., current President, R.G. Riedl Consulting Inc.

Howard Lincoln Shearer
President and CEO, Hitachi Canada Ltd. (HCL), member of HCL's Board of Directors

John Wiersma
Past President and CEO, Veridian Corporation

Appointed in 2006:

Roberta Brown
President, Sassafras River Associates

Clifford (Mike) Naeve
Head, Global Energy Practice Group, Skadden, Arps, Slate, Meagher & Flom LLP

Management Team

Dave Goulding
President and CEO

Bruce Campbell
Vice President, Corporate Relations and Market Development

Derek Cowbourne
Vice President, Reliability Assurance

Bill Limbrick
Vice President, Information Technology and Infrastructure

Paul Murphy
Chief Operating Officer

Gary Sherkey
Vice President, Corporate Services, Chief Financial Officer and Treasurer

Harry Chandler
Director, Market Assessment and Compliance

Norm Thomas
Director, Human Resources

Stakeholder Advisory Committee

The IESO's external Stakeholder Advisory Committee was created to provide timely policy-level advice and recommendations directly to the Board and IESO Management. The IESO Board of Directors appointed the following stakeholder nominated members:

Brian Bentz
President and CEO, PowerStream, representing distributors

Bruce Boland
Senior Vice President, Corporate Affairs, Ontario Power Generation, representing generators

Steve Dorey
Vice President, External Relations, Hydro One, representing transmitters

Julie Girvan
Energy Advisor, Consumers Council of Canada, representing residential consumers

Mike Humphries
General Manager, Zochem, a division of Hudson's Bay Mining and Smelting, representing embedded industrial consumers

John LeMay
Energy Manager, Inco, representing wholesale consumer market participants

Bruce Lourie
President, The Richard Ivey Foundation, representing the environmental community

Paul McMillan
Senior Vice President Ontario, EPCOR Utilities Inc., representing marketers/brokers

Matthew Picardi
General Manager of Regulatory Affairs, Coral Energy, representing marketers/brokers

Chuck Stradling
Executive Vice President, BOMA Toronto, representing commercial consumers

Don Thorne
President and CEO, Milton Hydro, representing distributors

Daniel Whyte
Vice President, Regulatory Affairs, Brascan, representing generators

Bruce Campbell
Vice President, Corporate Relations and Market Development, representing the Independent Electricity System Operator as a non-voting member

Technical Panel

Peter Alpajaro
Bruce Power

Peter Bettle
Brascan Power

Max Cananzi
Horizon Utilities Corporation

Wayne Clark
SanZoe Consulting Inc.

Derek Cowbourne
Independent Electricity System Operator

William Harper
Econalysis Consulting Services

Paul Kerr
Coral Energy Canada Inc., a Shell Trading Company

Michael McGee, P.Eng.
Energy Profiles Ltd.

Mike Penstone
Hydro One Networks Inc.

Rob Roberti
Verde Finance Inc.

Peter Sergejewich
Independent Electricity System Operator

Raymond Tracey
Essex Power Corp.

The IESO's 2005 Financial Statements are available on the IESO website or by contacting Customer Relations.

IESO Vision

A vibrant Ontario economy supported by a reliable and competitive electricity market.

IESO Mission

To act in the interests of the people of Ontario to provide reliable, competitively-priced and sustainable electricity service.

Power to Ontario. On Demand.

Independent Electricity System Operator
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Toronto, Ontario M5G 2K4
Reception: 905.855.6100
Media inquiries: 416.506.2823

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E-mail: customer.relations@ieso.ca

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